CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 2 EXAMINATIONS

A2.3 ADVANCED TAXATION

DAY: MONDAY 25, NOVEMBER 2024

INSTRUCTIONS:

1. Time allowed: 3 **hours and 45 minutes (**15 minutes reading and 3 hours 30 minutes writing)
2. This examination has **two** sections; **A&B**
3. Section **A** has one Compulsory Question while section **B** has Four optional questions to choose any three
4. In summary attempt four questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings

TAX RATES AND ALLOWANCES:

The following rates of tax and allowances are to be used when answering the questions
Personal Income Tax Rates

Monthly Taxable Income		**Tax Rate**	**Annual Taxable Income**		**Tax Rate**
From (FRW)	**To (FRW)**	**%**	**From (FRW)**	**To (FRW)**	**%**
0	30,000	0	0	360,000	0
30,001	100,000	20	360,001	1,200,000	20
100,001	and above	30	1,200,001	And above	30

Individual's housing benefit: 20% of the employment income excluding benefits in kind
Individual's Car benefit: 10% of the employment income excluding benefits in Kind

RSSB contribution - Pension

Employer's contribution	5%
Employee's contribution	3%

RSSB contribution – Maternity leave

Employer's contribution	0.3%
Employee's contribution	0.3%

Corporate Income Tax Rate: 30%
Capital gains tax
Net aggregate gains are taxable at the company rate of taxGains on sale of shares are taxable at the rate of 5%
Value Added Tax Rate: 18%

Withholding tax

Standard	15%
Government securities	5%
Import	5%
Public Tender	3%

Gaming tax: 13%

Capital allowance

Description	**Rate**
Accelerated depreciation	50%
Wear & Tear Allowance	
Buildings, heavy industrial machineries	5%
Intangible assets	10%
Information and communication systems whose life is over ten (10) years	10%
Computers and accessories, information systems whose life isunder ten (10) years	50%
Other business asset	25%

Your answers should be based on Law nº 016/2018 of 13/04/2018 establishing taxes on income where applicable.

SECTION A

QUESTION ONE

a) A prominent pastor from United Kingdom intends to plant a church in Rwanda to contribute to social transformation of the citizen, the plan is to secure funding from foreign donor, church members contributions and personal money as well. You have been invited to the first brainstorming session as the tax specialist together with other partners in the project.

Required:

Discuss the position of Rwanda tax laws regarding Non-Governmental Organizations, particularly faith-based organizations, and advise the pastor how the church can be run smoothly without having issues with Tax Administration Authority. (6 Marks)

b) Maxim Limited has approached you to provide advice on various benefits provisions to their Managing Director's employment contract, the objective is to take the option that provides the Managing Director with a less costly option from a tax point of view. The monthly basic salary is FRW 7 million;

Accommodation Option 1:

To utilize one of the companies owned staff houses complex, these houses are furnished and all the staff living in them get refund of up to FRW 75,000 for out of pocket utilities. When rented out to external tenants, Maxim Limited makes RWF 750,000 per month.

Accommodation Option 2:

To rent for the Managing director a fully furnished apartment for FRW 800,000 per month in Kigali Vision City.

Car Option 1:

Let the Managing Director drive one of the company's fleet vehicles, with fuel and servicing taken care of by the Company. The vehicle considered is a Toyota TXL with cost of FRW 80 million.

Car Option 2:

Rent a vehicle from one of the leasing companies and let them take care of aftersales and all the fuelling problems. A similar model would be rented for FRW 850,000 per month.

Required:

i) **Explain and illustrate with calculations the tax treatment of each of the above options on annual basis**. (12 Marks)

ii) Based on your answer in (i) above, **advise which is the best accommodation and car option in line with Company's main consideration.** (2 Marks)

c) The following financial information was submitted to Rwanda Revenue Authority by Taifa Limited, a retail business based in Kigali for the year ended 31 December 2023.

Descriptions	**Notes**	**RWF '000**	**RWF '000**
Sales	1		773,020
Opening stock		44,752	
Purchased stock items	2	208,841	
Closing stock		(27,141)	
Cost of Goods sold			226,452
Gross profit			**546,568**
Other Income;			
Discount received		16,508	
Interest on overdue invoices		10,981	
Interest earned on bank cash balance with Bank		20,163	
Bad debts recovered	10	12,870	
			60,523
Total Income			**607,090**
Expenses;			
Payroll costs	4	113,052	
Marketing costs	5	9,373	
Finance costs	6	8,387	
Managers' airtime and data		39,033	
Discount for early settlements		65,085	
Consultancies	7	10,699	
Water and Electricity		20,561	
Repairs and Maintenance		35,362	
Prior year income tax paid		31,078	
Depreciation and amortization		46,260	
Bad and doubtful debts	8	833	
Postage and delivery costs		18,141	
Transportation and haulage		15,257	
Miscellaneous expenses	9	87,183	
Total expenses			**500,304**
Net Profit / (Loss)			**106,786**

Additional Information:

1) The sales figure includes FRW 22 million from sale of old shelves and replaced with new ones during the year. The accounting net book value of the old shelves was FRW 12 million at the time of sale.

2) After preparation of annual accounts in January 2024, the payable accountant received an invoice for FRW 8,900,000 (VAT inclusive at standard rate) regarding goods for resale that were delivered late in December 2023. This invoice was not recorded in accounts.

3) In May 2023, the company ran a promotional campaign for some of its royal customers by buying and donating 10 iPads for the top clients for a total of FRW 10 million. The company managed to secure a 50% refund from a local Charity to finance this project, the accountant recorded the entire amount under Cost of sales.

4) **Payroll costs include:**
   i. FRW 40 million performance bonus provision for the year, payable annually in March the subsequent year. FRW 38,500,000 was paid out in March during the year relating to the prior year and this amount was posted against the opening balance provision for Bonus in the Balance sheet and not expensed in the 2023.

   ii. FRW 6 million relating to payroll taxes in December 2023 payroll. This amount was only paid on 14th January 2024.

   iii. Also included in payroll costs is FRW 9,720,000 provision for untaken leave days by staff. This is provided for by company policy and is in line with IFRS requirement.

5) **Marketing costs include the following;**
   i. FRW 2 million spent on General Manager's farewell party and vacation package as a gesture of appreciation.

   ii. FRW 3,500,000 spent on drinks and food at the launch of a new shop in Kinyinya

   iii. FRW 500,000 worth of sample products for invited guests during the launch event of the new shop.

6) **Included in the Finance costs;**
   i. FRW4 million Interest on Overdraft facility held with Bank of Kigali, of which FRW 500,000 relates to penalty for late replenishment of account to agreeable minimum level.
   ii. FRW 2,500,000 relates to Interest on overdue invoices charged by the main supplier if payment is not made with 30 days' credit period.

7) **Consultancy:**
   i. Accrual for audit fees of FRW 3,500,000 for the year as included in expensed amount, based on contractual alignment with the auditor. During the year, the company paid FRW 3 million relating to prior year audit performed in 2023 and this was not included in 2023 costs.

ii. An amount of FRW 2,625,000 was paid to the company attorney for defence of one senior management team member who was charged with drunk driving, this amount was expensed in the year.

iii. Litigation on ongoing case for land dispute, about 80% chances of winning the case based on the first ruling. FRW 1,200,500 has been paid so far and FRW 900,000 provision made. Both amounts included in consultancy costs in Income Statement.

8) Bad and Doubtful debts include:

i. Debt collection costs: FRW 150,000
ii. Increase in specific bad debts provision: FRW 520,000
iii. Decrease in general bad debts provision: (FRW 450,000)

9) Miscellaneous expenses:

i. Trade union subscription for technical employees amounting to FRW 8,200,300
ii. Membership subscriptions to Accounting body for Finance team worth FRW 850,000
iii. Golf tournament subscription for Managing Director amounting to FRW 2,500,000.
iv. Provision for replacement of broken glass windows across all shops: FRW 5,650,000.
v. Customer claim for defective and returned goods worth FRW 4,000,000.
vi. Hiring of independent firm to investigate a possible fraud case worth FRW 2,900,000.
vii. Gifts given to key customers during end of year party worth FRW 3,500,000.
viii. FRW 9,820,000 was spent on investigation to acquire a new company and the rest of Miscellaneous costs were office stationery.
ix. The rest relates to regular office stationery.

10) The bad debt recovered was previously written off and allowed for income tax purposes in prior period.

11) Rwanda Revenue Authority had assessed and granted the company a capital allowance of FRW 32 million for the tax year 2023

12) The company had paid up to FRW 25 million in income tax quarterly prepayments during the year 2023.

Required:

i) **Compute the taxable income for Taifa Limited for the tax period of 2023, clearly indicating all relevant calculations**. (18 Marks)

ii) **Advice the company on the impact of quarterly prepayments on tax payable**. (2 Marks)

(Total: 40 Marks)

SECTION B

QUESTION TWO

DF Ltd

DF Ltd is a Rwanda based manufacturing company that specializes in the manufacturing of the textiles and apparels. Since 2019 the company has been struggling financially due to declining sales and increased competition from cheaper overseas manufacturers. Despite efforts to cut costs and renegotiation of the loans, the company's debt continues to grow, and it has become increasingly difficult to meet its financial obligations.

After exploring all options including seeking additional investment and restructuring of debt, the company's board of directors and shareholders decide that liquidation is the only viable solution and thus appointed a licensed liquidator who will oversee the process.

The following are the financial information as at 31 December 2022.

Descriptions	FRW Million
Non-current assets	98,700
Inventory	5,645
Shareholders’ equity	62,970
Total Liabilities	41,375
Net asset	21,595

The proceeds from the sale of the total assets are FRW 256,500,000,000

ABC Tech Solutions

ABC Tech Solutions is a rapidly growing startup company registered in Rwanda that specializing in the software solutions for healthcare providers, The company is seeking to expand its operations as well as its market reach. The company is owned by the two shareholders and has developed a suite of innovative products that can optimize patient care and administrative processes.

Despite initial success and positive customer feedback. ABC Tech Solutions now faces the critical need for additional funding to scale its operations, enhance product development, and boost sales and marketing efforts. The founders recognize that selling its shares to external investors is the most viable strategy to secure the necessary capital for growth.

The company’s shareholders decided to issue 50% of their share to the investors to raise the required additional funds

Umwubatsi Construction Ltd

Umwubatsi Construction Ltd is a Rwandan company established on January 1, 2010, operates primarily in Kigali specializing in the construction of high-value residential and commercial properties that are leased upon completion. The company's assets are as follows as at 31 December 2020.

1. A residential building valued at FRW 85,000,000 and covers an area of 632 square meters.
2. The commercial building valued at FRW 250,675,500 according to the recent valuation report,

The company has decided to transition from its rental business and embark on a new venture: a large-scale manufacturing operation focused on producing both alcoholic and non-alcoholic beverages. As a result of this decision, the company sold a residential and commercial building that were previously leased to tenants for FRW 120,000,000 and FRW 350,875,000 respectively in 2020.

Required:

a) As the tax experts, **clearly advise on the tax implications of the above scenario. Using the computations where applicable**. (15 Marks)

b) The classification of whether a person is employed or self-employed is determined by evaluating all aspects of their engagement where employment entails a contract of service and self-employment involves a contract for services.

Required:

Explain the factors that indicate employment and self-employment, considering the aspects related to the nature of their contracts. (5 Marks)

(Total: 20 Marks)

QUESTION THREE:

a) GTC Ltd would like to expand their branch network in the country to forty in the next three years commencing in the year 2018. This will necessitate additional funding of FRW 3,500,000,000. The board of directors has made a decision to apply for an investment license from the Rwanda Development Board with effect from 1 January, 2018. The options that the board of directors is considering in order to raise the additional funding are as below:

Option one.

The company is proposing to sell 350,000,000 shares at FRW 10 per share to Mr. Smith, a foreign investor who is a resident of South Africa.

Option two.

Borrow FRW 3,500,000,000 from a locally registered bank specialized in the lending and receiving deposits from or to different clients. The loan will carry an interest rate of 10% on reducing balance and will be repaid in equal annual installments in a period of 5 years The first installment is due on 31 December 2018.

The company's projection of the profits before interest and tax and the allowable depreciation allowances (wear and tear) are as below:

Descriptions	**2018**	**2019**	**2020**
	FRW million	**FRW million**	**FRW million**
Profit before interest and tax	12,500	22,000	32,000
Wear and tear allowances	500	1,200	950
Investment allowance	2,300	1,500	-

The company expects to make a dividend payment of FRW 10 per share during the period under consideration.

Required:

Advise GTC Ltd on the best available option of raising additional capital that will lead to a tax advantage on the basis of the information provided. (10 Marks)

b) A professional accountant's responsibility goes beyond fulfilling the needs of a single client or employer. When serving the public interest an accountant is required to adhere to the fundamental principles of professional accounting. If an accountant encounters threats to these principles, he should implement safeguards as prescribed by the professional code of ethics.

Required:

Explain the matters that give rise to conflict of interest of a professional accountant and give the ethical solutions that should be applied by the professional accountant.

(10 Marks)

(Total:20 Marks)

QUESTION FOUR

a) The Management of Ingaju Ltd, a Rwandan resident company for the past four years is 100% subsidiary of Chale Ltd, incorporated in Ghana. The Chief Financial Officer of Ingaju Ltd has invited you as the newest team member in tax department to give advice the management on the transaction below with Chale Ltd in relation to the potential tax implications.

Ingaju Ltd acquired a loan of $10 Million from Chale Ltd for working capital purposes. The Loan balance was $8.5 million at the start of the year 2023 and $7 million at the end of the year 2023.

Below information was extracted from Ingaju Ltd's Balance sheet

Descriptions	**FRW '000'**	**FRW '000'**
	As at 01 Jan 2023	As at 31 Dec 2023
Paid up share capital	1,500,000	1,500,000
Retained Earnings	350,000	490,000
Reserves	250,200	250,200

The interest on the Loan paid during the year of 2023 was FRW 350 million and foreign exchange Loss on Loan repayment was FRW 75 million.

The exchange rates are $1=FRW 1,200 at the start of the year of 2023 and $1=1,250 at the end of the year of 2023.

Required:

With the aim of detailed computations, **write a Memo to the Chief Financial Officer advising on the tax implications of the above scenario.** (12 marks)

b) After completing the Certified Public Accountant (CPA) program with The Institute of Certified Public Accountants of Rwanda (ICPAR) and four years' experience at a big four audit firm, you get a practicing certificate to run your own tax advisory firm.

Your first job is unique investment advisory, recommended by your former tax manager as follows.

Dr Yvan Shema is a Rwandan medical doctor practicing in Canada but wants to make investments back at home, that require minimal supervision so he can generate passive income while still focusing on his full-time job.

For either of two investment options below, Dr Yvan is targeting a total investment of FRW 500 million, of which 65% would be his own cash and the rest would be sourced from a local bank at a negotiated interest rate of 15% per year.

Option 1 (Real estate):

Dr Yvan would set up a series of furnished residential apartments in Kigali. He has established with reasonable certainty that all apartments would generate up to FRW 35 million per month. He would incur following costs to manage the premises.

i. FRW 12 million on salaries
ii. FRW 6 million on utilities
iii. FRW 5 million security, gardening, and other maintenance.

Option 2 (Machines and Equipment):

Dr Yvan is considering another proposal of investing in machinery and equipment. The projected income from this option would be FRW 32 million per month in total. This option can generate more returns in the busy season but the downside of it is redundancy during the off-peak season. FRW 9-12 million would be incurred on fuel and another FRW 7 million on salaries of drivers and maintenance.

Dr Yvan wants your professional option on which of the two options would give him less exposure.

Required:

Advise Dr Yvan Shema on the best option of the two if he wants to minimize tax liability as much as possible, support your answer with detailed calculation of the tax liability for each option. (8 Marks)

(Total: 20 Marks)

QUESTION FIVE

a) Mr. Eliott Taylor is a tax resident of Belgium, is married and has four children.

Eliott Taylor owns a house in Belgium, which he occupies with his family. In addition, Eliott owns another property in Belgium that is rented out for private purposes.

Eliott is a majority shareholder in Montanae Group of companies, which consist of 12 companies, mainly located in France, Luxembourg and the East African region. The Group operates in research and mining activities.

Eliott is a Director of the Montanae Group. His remuneration comes from Belgium and is based on daily management activity, and France in form of Director’s fees. He is subject to the Belgian social security system and pays his social contributions to the INASTI, a Belgian public entity.

Mr. Eliott has one single recurring income from movable property: a dividend from a Belgian company amounting to approximately USD 10,000 per year. He also receives small amounts of annual dividends from a securities account in the same country.

Mr. Eliott is considering moving with his family to Rwanda for a period of two years. The purpose of moving to Rwanda is to supervise his entities in the East Africa region and to design a strategy for business growth.

Eliott’s family will physically move with him to Rwanda and occupy a rental house, which will be fully furnished. Eliott’s children will attend school in Rwanda.

It is envisaged that all the costs associated with this expatriation will be borne by one of the Group's companies, mainly accommodation, school fees and transport. Expenses will be borne by either the Montanae Group which is the mother company in Belgium which employs Mr. Eliott as a Director or the Rwanda Subsidiary. Eliott will not be remunerated in form of a salary in Rwanda and will not be involved in any business activity in Rwanda.

As a result, Mr. Eliott is concerned about his tax status in Rwanda.

The first concern is the possible transfer of the Eliott’s family's tax residence in connection with the temporary stay in Rwanda for two years. In this respect, article 4 of the Belgian-Rwandan treaty Avoiding Double Taxation states that tax residence is determined by the legislation of each State, but that in the event of a conflict of residence, the following elements should be taken into account, to be assessed in cascade: (i) permanent home, (ii) center of vital interests, (iii) habitual place of residence or (iv) nationality.

Required:

i) In accordance with the Rwanda Double Taxation Agreement with Belgium, **examine the State that should be considered as the State of tax residence of Mr. Eliott during his stay of two years in Rwanda?** (4 marks)

ii) Discuss the tax regime for Rwandan earned income if Mr. Eliott is considered a resident and stays in Rwanda for more than 183 days? (3 marks)

iii) Discuss whether Mr. Eliott's real estate, movable property and income earned from abroad would be taxed in Rwanda in accordance with the Rwanda Income Tax Law if he stays in Rwanda for two years **(**3 marks)

b) Ganza shoe Ltd (GS) is a successful company incorporated in Rwanda since 2015. In 2022, the turnover of GS Ltd increased at unexpected rate. During the peak period, the company registered for VAT in compliance with law no 026/2019 of 18/09/2019 on tax procedures especially its article 11 determining conditions for registration for VAT. In 2019 the company proposed to establish new operations aimed at processing shoes for men. For this purpose, on 2/12/2022 GS Ltd imported materials worth USD 20,000 from Japan. The transport and insurance incurred by GS Ltd to point of entry in respect of this import were USD 8,000 and USD 6,000 respectively. The total weight of materials was 6,000 Kg the company paid USD1000 port charges per the tone. The prevailing exchange rate on 2/12/2022 was FRW 1050/1USD. Import duty and excise duty are 25% and 10% respectively.
The following information were extracted from the books of account of GS Ltd for the Month of December 2022.

Date	**Description**	**Amount**
		FRW "000"
02/12/2022	Sale of shoes to KMB Ltd inclusive of VAT	20,000
03/12/2022	Purchase of shoes from RMC Ltd exclusive of VAT	15,000
03/12/2022	Sale of shoes to government institution inclusive of VAT	50,000
03/12/2022	Electricity costs inclusive of VAT	3,000
04/12/2022	Export made to Kenya	40,000
05/12/2022	Purchase of shoes from BMB company exclusive of VAT	25,000
15/12/2022	Bad debt written off in 2017 was recovered	5,000
28/12/2022	Sales returned by KMB due to defects on some items	8,000
03/12/2022	Shoes returned to RMC due the defect VAT exclusive	4,000
03/12/2022	staff telephone costs	3,000
07/12/2022	sales from transport	12,000
13/12/2022	repair and maintenance costs of the cars used in the transport	9,000
20/12/2022	Office rent VAT inclusive	5,000
16/12/2022	Fuel for the cars used in transport	2,000
03/12/2022	office computers	3,500
31/12/2022	Security guard	2,500

Additional information:

1. In December 2022, a bad debt of FRW 6,000,000 was written off. GS Ltd complied with all conditions as set out in article 20 of 09/11/2012 establishing VAT law for post-sale adjustment for unrecoverable debts.

2. On 10/12/2022 GS Ltd hired private consultant from Kenya to conduct a market survey for new product which is likely to be launched in January 2023. Similar consultants who can provide similar services are available in Rwanda. The amount paid by GS Ltd to the consultant was FRW 10,000,000.

3. On 02/ 12/ 2022, GS Ltd signed a contract with a foreign consultant from Canada to install the new machinery that was bought in the same country at a contract price of FRW 15,000,000. GS Ltd was informed and assured that the service is not available in Rwanda. On 28/12/2022 GS Ltd paid FRW 15,000,000 to the consultant

4. Included in the security guard is the amount paid to the security guard of the managing director amount to FRW 500,000.

5. Assume the transaction is VAT exclusive where not indicated.

Required:

Compute the VAT payable or refundable for the month of December 2022.

Clearly showing all your workings (10 Marks)

(Total: 20 Marks)

End of Question Paper

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